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AUTOMOTIVE INDUSTRIES

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KNOCKING ON MERCEDES' DOOR

China! A Trade Dynasty Is Born

Building The '86s

GM's Getrag High Torque Tranny

Japan's Auto Unions: No Strikes; No Outs

Cadillac's John Grettenberger with '86 Seville

AUTOMOTIVE INDUSTRIES

November, 1985/Volume 165, Number 11

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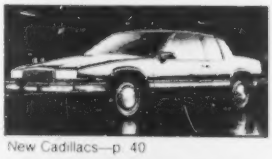

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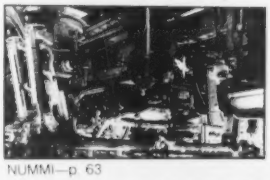

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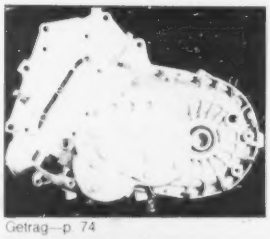

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John Grettenberger, general manager of Cadillac, with the new '86 Seville. Photo by Anthony J. Nelson.

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Strategy '86: We talk to the big boys at GM, Ford and Chrysler about sales, future product and staying lean.

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CHINA! A TRADE DYNASTY IS BORN

AI reports first-hand on China and how free enterprise is fueling its dramatic turnaround. Potential automobile demand is also explored.

by Joseph M. Callahan

Zhang Yong-Shan, a 32-year-old national guide in the People's Republic of China, says with a smile, "My wife is mean to me. She makes me do the laundry. She treats me like a washing machine."

Since "doing the laundry" in China often means beating the clothing against a rock at a nearby canal until the material is clean, Zhang is now working overtime to buy one of the new automatic washers currently available in China.

This domestic incident reflects the dramatic contrasts, the restructuring and the technological modernization now going on in China, as its 1.1 billion industrious people—a quarter of the world's population—strive to rapidly move into the 20th century. A combination of central communist direction and well-motivated free enterprise is the system being employed.

Tremendous advances have been made in almost every sphere of economic activity since Deng Xiaoping, successor to the late Chairman Mao Zedung, took charge in '76 and the new constitution was installed in '78.

Despite import taxes of 80% on cars in China, the People's Republic purchased 20 stretch Cadillacs last summer for $39,000 apiece for visiting VIPs.

Transportation Improving

Improved transportation is playing a key role in this rapid modernization. Millions of trucks, trailers, buses and other vehicles will be needed to achieve the goals set for the next 15 years.

In addition, China will probably become a major source of auto parts and other products for the US and throughout the world, as a result of the extremely low wages in China, the industriousness of the Chinese workers, and the aggressive trade programs of the Deng government. However, a slight slow-down and reassessment is now occurring.

These are my conclusions after spending 19 days in China last summer, covering over 3000 miles (*4827 km*) through 30-plus cities by bus, train, boat, taxi, airplane and even briefly on a subway.

Many Myths Prevalent

Most Americans have heard about and talked about China much of their lives. As a result we carry into China a host of myths and half-truths, frequently based on Pearl S. Buck's "The Good Earth," a solid work but one completed 50 years ago.

One of the myths is that China is a totally backward, primitive and impoverished nation. It has been that and still is for millions of people. But in many respects China is moving ahead faster than any country in the world because of the restructuring of the economy, and the stimulation coming from thousands of joint ventures with top foreign companies.

The idea has also been conveyed that the new market-driven economy is restricted to 14 coastal cities. But everywhere our tour went, which was as much as 800 miles (*1287 km*) inland to Xian and Kunming, there was evidence of free enterprise, especially among the 800 million farmers.

An example of this was the large percentage of the people who were working in the early morning or late evening on their "moonlight jobs." Under the current "responsibility system," the government allows and even encourages peasant farmers and city dwellers to operate their own businesses, often earning two or three times as much as they do from their government-assigned jobs.

Food Is Plentiful

Unlike the Soviet Union, its European satellites and other communist countries, China has an abundance of food and other products for sale. However, poverty still exists in a few of the country's 23 provinces, especially among the 55 minorities which make up about 6% of the total population. We visited people living in caves and ancient hovels, but we also

saw thousands of modern high-rise apartments being built.

Another misconception is that China's huge population is spread more or less evenly throughout the country which is just a few thousand miles larger than the US.

But these hordes of people are largely crowded into the eastern third of the country, while the more extensive mountainous and desert regions are thinly populated. In fact, China actually has less arable land than the US.

While China is sometimes viewed as a militant country, one of the most amazing and favorable developments witnessed was the demobilization of one million Chinese soldiers. Some highways in southern China were filled with trucks of smiling Chinese soldiers returning to their homes.

Skeptics Wary

Skeptics quickly say, "Yes, but how large an Army does that leave China with?" The answer is that 3.2-million soldiers are still in China's army. In a parallel action, an unspecified number of Chinese weapons plants are being converted to the production of home appliances, such as automatic washers. But the weapons being made in these plants were quite old-fashioned and outmoded.

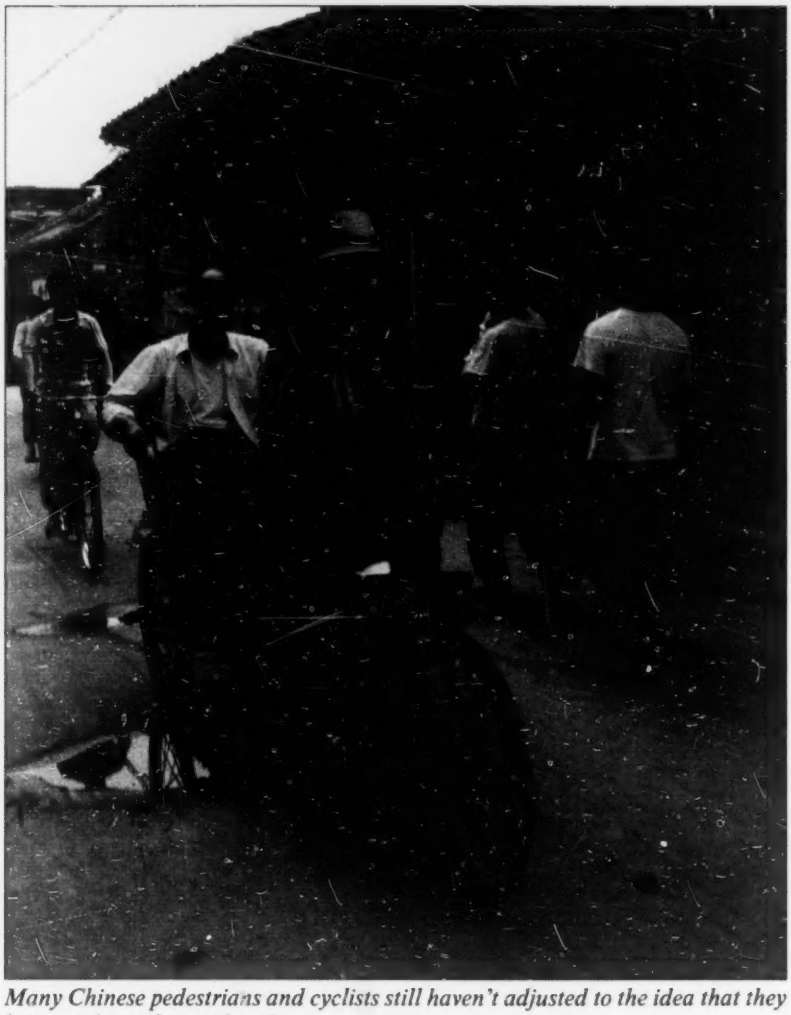
Another pleasant surprise in China was the extreme US-orientation and friendliness of the people. Repeatedly, we were stopped and questioned in the most friendly fashion.

Stephen S. Chen, GM's director of program planning-China, reports that over 250 million Chinese—more than the entire US population—now speak some English.

A History of Friendship

One Chinese guide summed up the situation, saying, "The Chinese have always been friendly to America, except when you opposed our (communist) Revolution in 1949 and when you fought us in Korea."

In the automotive sector, the potential for being in a future auto market of over a billion people and because of the low wages, virtually every auto manufacturer in the world has discussed a program of some kind with the China National Automotive Industry Corp (CNAIC) which Deng established a few years ago.



Many Chinese pedestrians and cyclists still haven't adjusted to the idea that they have to share the road with cars.

The czar-like CNAIC is well regarded for cutting red-tape. But relatively few automotive deals have been "cut" so far. And those that have been consumated are relatively small. The Japanese have been quite slow in this regard, with two small exceptions. They reportedly fear China as a low-cost competitor in the future.

CNAIC's establishment is viewed as a signal of the nation's new commitment to ground vehicle transportation. The goal is to increase vehicle production, mostly trucks, from the 270,000 units produced last year to around one million by 1990. Fruehauf Corp. is engaged in a trailer-building program of even greater growth.

During the first six months of this year, according to the official Xinhua News Agency, some 200,000 trucks and about 5000 cars were produced in China. This represents an increase of 51% over last year and 13% ahead of the government's goal for 1985.

A measure of the past poor productivity of China's auto industry, according to GM's Chen, is that last year the Chinese auto industry employed one million people in 80 vehicle assembly plants and about 2000 supplier plants to produce those 270,000 vehicles. Only some 5000 of the vehicles produced were cars, largely the Red Flag limousine produced in Shanghai for government and party officials.

(Continued)

Beijing Beginnings

In 1983 American Motors embarked on a joint venture with the Chinese government and purchased 31% of the Beijing Auto Works.

This plant has been producing the BJ212, a Russian copy of an early Jeep, for several years. Last month the Beijing Works also began assembling knocked-down AMC Cherokees. As Cherokee production builds and local sourcing for it increases, the BJ212 will be phased out.

Last fall Volkswagen AG also formed a 25-year joint venture with the People's Republic of China, agreeing to build 20,000 VW Santana models a year in Shanghai by early 1987. But VW chairman Carl Hahn announced recently that this program has been accelerated twice and now the plan is to produce 40,000 Santanas by 1987. VW also expects to assemble 500 to 1000 Audi 100s (US 5000 models) next year in China.

Last March Peugeot signed a contract to make 15,000 Peugeot 504 pickup trucks and station wagons a year near Canton by 1990. Production will begin in 1987. In addition, Italy's Fiat has agreed to build 60,000 minibuses in Nanjing.

Daimler-Benz AG has also announced plans to assemble 1000 of its now obsolete 200 and 230E models in Changchun, China, employing production equipment formerly used in the Philippines and South Africa.

In addition, Daihatsu of Japan is assembling the Hijet, a small commercial vehicle, in China. The goal this year is about 5000 units. The Chinese government has also asked Daihatsu about the possibility of assembling its Charade minicar there.

Also, the *China Trade News* reports that Isuzu Ltd of Japan is participating in a 10-year joint-venture to produce 15,000 NKR and NHR small cars a year in Chongqing.

Engines Planned

As a way of using China's low-cost labor, several companies are planning to produce vehicle engines there for export. VW expects to build 100,000 engines a year in the not too distant future and Fiat will soon be manufacturing 60,000 powerplants annually in Nanjing.

Foreign Vehicle Production Planned For China

Company	Vehicle	Volume	When	Where
AMC	BJ212	21,000	1985	Beijing
AMC	Cherokee	5000	1986	Beijing
Volkswagen	Santana	40,000	1987	Shanghai
Volkswagen	Audi 100	500-1000	1986	Shanghai
Daimler-Benz	200, 230e	1000	N.A.	Nanjing
Fiat	Minibus	60,000	N.A.	Nanjing
Daihatsu	Hijet	5000	1985	N.A.
Isuzu	NKR, NHR	15,000	N.A.	Chongqing
	Total unit volume:	**163,000**		

GM's Detroit Diesel has also worked out a heavy-duty transmission program. Chrysler and Citroen are currently negotiating engine contracts. Both GM and Ford are doing a lot of "talking" to the Chinese, but no contracts have been signed.

It now appears that "automobilization" through the import route has been moving a bit too fast for the government and for its relatively scarce foreign currency reserves. They recently declined from $12.5 billion to $11.6 billion in six months. However, the US couldn't be blamed since its trade deficit with China climbed to over $400 million in '84.

An estimated 100,000 cars were imported into China last year. The lion's share of these have been Toyota Crowns which are quite conspicuous throughout the country, often used as taxis. Toyota exports to China soared to 8500 a month late in 1984. Since then Toyota has said it will cut back its Chinese exports to 3000 a month.

Stimulating Interest

The government reportedly has been trying to stimulate interest in cars by importing several thousand tiny Polski-Fiat 126s from Poland to sell to a few individuals for $7000 each.

But alas, things apparently got out of hand, especially considering that the entire country now only has about three million vehicles, including a mere 170,000 automobiles. Consequently, last July the Beijing government announced that it was raising import taxes on cars to 80% and on trucks to 50% for all provinces.

Despite this, the People's Republic purchased 20 stretched Cadillacs replete with TV, bar and refrigerator last summer for $39,000 apiece for visiting government officials and important businessmen.

'Who's A Road Hog?'

As an observer noted, many of the Chinese pedestrians and cyclists still haven't adjusted to the idea that they have to share the road with these four-wheeled rivals. Little road construction or road repair was seen on this trip, although four limited-access highways, each about 100 miles long, are now under construction.

An important point concerning investment in China is how serious the Chinese are about continued free enterprise. In light of the fact that many average Chinese have doubled, tripled and even quadrupled their incomes since 1978, a return to a pre-free enterprise economy is going to be pretty difficult if not impossible.

Much has been written about China of late, but James Sterba of the *Wall Street Journal* possibly said it best. He said that Deng Xiaoping "has led the world's most populous nation out of two decades of economic stagnation and political chaos and into a buoyant period of economic growth and political order.

"He turned to the West and Japan for technology. He introduced competition, the profit motive and market forces." ■